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## Wartime Economic Cooperation in the Americas



BY JOHN C. deWILDE

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# Wartime Economic Cooperation in the Americas

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As was clearly demonstrated at the Meeting of Foreign Ministers at Rio de Janeiro, the war has greatly strengthened the economic ties between the United States and Latin America. Since commercial and financial relations with overseas countries have been severed or largely curtailed, the nations of the Western Hemisphere have been compelled to rely on each other to a much greater extent than ever before. The United States has drawn increasingly on Latin America for strategic materials vital to its defense program and for other products formerly obtained in Europe and Asia. At the same time, Latin American countries have turned to the United States for financial assistance to relieve economic distress caused by the war, as well as for markets and supplies to compensate for the loss in trade with Europe and other parts of the world.

ECONOMIC SOLIDARITY OF WESTERN HEMISPHERE

Thus, the crisis in Latin America created by the loss of almost the entire continental European market has been largely alleviated by loans and credits from this country, increased purchases by the United States, and support of coffee prices through the Inter-American Coffee Agreement. Larger sales of United States products have compensated to some extent for curtailment of other sources of supply, and a system of allocation designed to satisfy the minimum requirements of Latin America for manufactured and semi-manufactured products has been set up. At the same time, efforts have been made since the outbreak of war in Europe to meet the wartime shortage of shipping space through assignment of more United States vessels to Western Hemisphere trade routes, and through seizure and mobilization of idle Axis and Axis-controlled ships in American ports. Although subject to some modification since December 7, these steps remain basically unchanged.

The sense of economic solidarity thus developed may well outlast the war. While the American nations recognize the impossibility of achieving self-sufficiency in the Western Hemisphere, they do want to effect a greater measure of economic independence on a permanent basis. The war, following closely on the economic crisis of the thirties, has convinced many Latin American countries that in the future they should not depend as much as they have in the past on the production of a relatively few agricultural and mineral staples for exportation to overseas markets. They want to diversify their economic life, to create more industries and develop a better balanced agriculture. Their desire is to achieve fuller utilization of their resources, and to foster the cultivation and manufacture of such products as will find a ready market at home or in other countries of the Western Hemisphere. The government of the United States has been generally sympathetic toward these objectives. In its own interest, it has been ready to assist in the diversification and stabilization of the economies of its southern neighbors. The United States has also been anxious to encourage in Central and South America the production of such commodities as rubber, manila hemp and cinchona, which it has hitherto obtained from very distant and at times uncertain sources of supply.

The present study considers the extent to which the impact of war has reinforced economic relations between the United States and Latin America. A subsequent issue of FOREIGN POLICY REPORTS will describe the long-term measures the United States has taken in recent years to foster closer ties with Latin America. Among such measures have been the conclusion and negotiation of several new trade agreements in line with the principles laid down by Secretary of State Cordell Hull; establishment of inter-American machinery for the development of Latin American resources; financing of industrialization; promotion of agricultural diversification—primarily by furnishing technical assistance and advice, and initiating a program for the cultivation of rubber in Latin America; and aid in the development of transportation facilities.

The outbreak of war in Europe threatened Latin American countries with the loss of important export markets. The severance of trade with Germany was a serious blow to Brazil, Ecuador,

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Paraguay, Venezuela, Costa Rica and Guatemala, and also affected adversely the exports of Colombia, Chile, Peru, Uruguay, El Salvador and Mexico. Altogether, Germany had been taking almost 9 per cent of the total exports of the twenty Latin American republics.[1] With the German conquest of Scandinavia, the Low Countries and France, and with the extension of the war to the Mediterranean, the foreign trade situation became much more acute. Latin America was cut off from almost all of Continental Europe, which in pre-war years had absorbed nearly a third of its exports. South American countries, particularly Argentina, were hard hit. The contraction of exports brought about a severe shortage of foreign exchange, and necessitated drastic curtailment of imports.

### U.S. LOANS OFFSET DISLOCATION OF LATIN AMERICAN TRADE

To provide the Latin American nations with the dollar exchange needed for imports, the Export-Import Bank began to extend credits on a considerable scale. In September 1940 the Bank's lending authority was increased from $200,000,000 to $700,000,000, and the additional $500,000,000 was specifically earmarked for the purpose of helping Latin America develop its resources, stabilize its economic life and market its products.[2] During 1940 the Bank granted exchange credits totaling $112,500,000 to the central banks of Argentina, Brazil, Colombia, Peru and Uruguay.[3] The numerous loans which the Bank has made for other purposes have also furnished the Latin American countries with dollar exchange. Early in December 1941 the president of the Bank revealed that its books showed disbursements and active commitments to Latin America aggregating $386,000,000, of which about $90,000,000 had been repaid and none was in default.[4] In part, however, these loans antedated the outbreak of the European war.

On the whole, Latin American countries have not found it necessary to draw extensively on the credits granted by the Export-Import Bank. Of the exchange credits made available to central banks in 1940, only $12,900,000 had actually been disbursed by August 15, 1941, and of this sum $497,500 had been repaid.[5] In a speech on December 6, 1941 the Coordinator of Inter-American Affairs disclosed that only $92,000,000 of the $500,000,000 loan fund given the Export-Import Bank in September 1940 had so far been paid out, and that $55,000,000 had already been amortized.

### SHARP RISE IN EXPORTS TO U.S.

The rapid expansion of exports to the United States has made financial assistance for the purpose of supplying dollar exchange much less essential than was originally expected. United States imports from the Latin American republics rose to $616,400,000 in the first twelve months of the war, as compared with $469,000,000 the year before. In the second war year, imports reached $837,300,000;[6] and in September 1941, the last month for which statistics are available, they were 92 per cent higher than in the corresponding month of 1940.[7] Under the accelerating stimulus of the defense program, imports during the calendar year 1941 probably exceeded $1,000,000,000, a figure not attained since 1929.[8] While the increase in United States purchases during 1940 was not sufficient to offset the losses sustained in other markets, the sharp rise in 1941 was enough to raise the total value of all exports of the Latin American countries to a level higher than that of the last pre-war year.[9]

Owing to the defense program and the stimulus it imparted to United States industries, the Latin American republics have had no difficulty in selling almost all the raw materials of many types which they can produce. The United States has made large purchases of hides and skins from Argentina, Uruguay and Brazil;[10] wool from Ar-

1. U.S. Tariff Commission, *The Foreign Trade of Latin America*, Part I, page 133.

2. "Export-Import Bank Loans to Latin America," *Foreign Policy Reports*, June 15, 1941.

3. Of this total, $60,000,000 represented a loan to Argentina which has never been approved by the Argentine Congress. For a list of Export-Import Bank loans, see Warren Lee Pierson, "A Report to the American People," *Foreign Commerce Weekly*, September 6, 1941.

4. Warren Lee Pierson, "Latin America and the Export-Import Bank," *Foreign Commerce Weekly*, December 6, 1941.

5. Pierson, "A Report to the American People," cited. In another article ("Latin America and the Export-Import Bank," cited) Mr. Pierson claimed that although many commitments to central banks had not been used, they had given these banks a sense of security.

6. August Maffry, "U.S. Foreign Trade During Second War Year," *Foreign Commerce Weekly*, November 22, 1941.

7. U. S. Department of Commerce, *Monthly Summary of Foreign Commerce of the United States*, September 1941, p. 4.

8. In the first nine months of 1941, the total was $715,275,423, as compared with $463,152,693 in the same period of 1940. *Ibid.*

9. Judging from fragmentary statistics, the export trade of all but a few Latin American countries rose during 1941. Thus in the case of Argentina, which outranks the other countries in foreign trade but was particularly hard hit by the loss of European markets, exports in the first eleven months of 1941 were .02 per cent greater in value than in the same period of 1940, but still 6.4 per cent less than in 1939. Since April 1941 the value of Argentine exports has been running higher than pre-war levels.

10. In the first five months of 1941, Uruguay's exports of hides and skins to the U. S. amounted to 10,043,000 pounds, as against 5,571,000 in the same period of 1940 (*Foreign Crops and Markets*, September 29, 1941, p. 356); and in the first half of 1941, Brazil's exports of cattle hides to this country totaled 13,810,641 kilograms, as compared with

TRADE OF THE UNITED STATES WITH THE TWENTY LATIN AMERICAN REPUBLICS

for the 12 months ended August 31, 1939, 1940, 1941

| | *United States Exports* | | | *United States Imports* | | |
|---|---|---|---|---|---|---|
| | *1938-39* | *1939-40* | *1940-41* | *1938-39* | *1939-40* | *1940-41* |
| | *(in millions of dollars)* | | | *(in millions of dollars)* | | |
| Mexico | 70.2 | 91.8 | 130.4 | 50.6 | 75.3 | 83.4 |
| Costa Rica | 7.8 | 11.6 | 11.1 | 3.3 | 3.8 | 6.5 |
| Guatemala | 7.5 | 9.4 | 9.7 | 10.9 | 12.0 | 10.8 |
| Honduras | 5.8 | 7.0 | 7.5 | 6.7 | 9.0 | 8.8 |
| Nicaragua | 3.9 | 5.8 | 6.7 | 3.0 | 2.9 | 3.0 |
| Panama | 10.7 | 18.5 | 29.3 | 3.3 | 3.6 | 4.8 |
| El Salvador | 3.6 | 5.1 | 4.9 | 7.2 | 6.7 | 6.9 |
| Cuba | 71.6 | 90.7 | 100.2 | 95.5 | 116.2 | 144.2 |
| Dominican Republic | 6.2 | 7.3 | 7.1 | 5.5 | 5.7 | 8.7 |
| Haiti | 4.5 | 4.9 | 5.2 | 3.0 | 3.1 | 5.5 |
| Colombia | 47.0 | 54.5 | 55.3 | 47.2 | 51.4 | 45.5 |
| Venezuela | 52.9 | 72.0 | 57.7 | 21.6 | 32.8 | 50.1 |
| Argentina | 65.0 | 117.2 | 78.0 | 54.2 | 79.2 | 136.6 |
| Brazil | 66.9 | 111.4 | 117.9 | 100.6 | 108.5 | 144.5 |
| Paraguay | 0.7 | 1.1 | 0.9 | 1.7 | 1.9 | 3.0 |
| Uruguay | 3.5 | 10.6 | 13.8 | 7.4 | 14.7 | 40.1 |
| Bolivia | 4.6 | 6.4 | 9.3 | 1.5 | 4.5 | 19.7 |
| Chile | 22.5 | 41.8 | 45.4 | 28.0 | 62.2 | 87.8 |
| Ecuador | 4.3 | 7.2 | 7.0 | 3.3 | 4.4 | 6.4 |
| Peru | 15.8 | 23.9 | 24.9 | 13.8 | 17.5 | 20.8 |
| TOTAL* | 475.1 | 698.4 | 722.4 | 468.0 | 615.4 | 836.9 |

*Foreign Commerce Weekly*, November 22, 1941, supplemented by *Monthly Summary of Foreign Commerce of the United States.*
*Trade with the Canal Zone is not included in this total.

gentina and Uruguay;[11] copper from Chile, Peru and Mexico; lead and zinc from Mexico, Peru and Argentina; nitrates from Chile; manganese and chromite from Cuba and Brazil;[12] tin from Bolivia; antimony from Mexico and Bolivia; tungsten from Argentina, Bolivia, Mexico and Peru; vanadium from Peru; henequen from Mexico; and quebracho from Argentina and Paraguay. In addition, the United States has been buying larger quantities of many less well-known but important raw materials, such as oiticica oil, babassu nuts and castor beans, quartz crystals and industrial diamonds, beryllium, mica, zirconium and titanium. All of these come from Brazil, which will send the United States a growing volume of defense materials when transportation facilities from the interior and equipment in ports are improved with this country's assistance.[13]

PRECLUSIVE PURCHASING AGREEMENTS

All these purchases, which have been undertaken by both private interests and government agencies, have been dictated not only by a desire to help Latin America, but above all by genuine and urgent need on the part of the United States. In fact, this country is providing many of the Latin American countries with mining experts and technicians who may be able to increase the output of strategic materials.

The United States, moreover, has been interested in keeping vital raw materials from the Axis. Nearly all Latin American republics have been persuaded to institute export controls similar to those prevailing in the United States; and a number of them, including Brazil, Mexico, Peru, Bolivia and Argentina, have agreed to give this country a virtual monopoly in the purchase of one or more raw materials. The dates and terms of these "preclusive purchase agreements" are as follows:

*Brazil (May 14, 1941).* Two-year accord confining exportation of the following strategic materials, up to

9,334,942 in the corresponding period of 1940 (*Boletim do Conselho Federal de Comércio Exterior,* October 20, 1941, pp. 7-8). U. S. imports of hides and skins from Argentina increased from 68,307,000 pounds in January-July 1940 to 130,298,000 in the identical months of 1941 (*Foreign Crops and Markets,* October 27, 1941, p. 535).

11. Argentine shipments of wool to the U. S. rose from 65.6 million pounds in 1938-39 (October-September) to 348.6 million in 1940-41; those of Uruguay, from 16.6 million pounds in 1938-39 to 119.7 million in 1940-41 (*Foreign Crops and Markets,* November 18, 1940, November 3, 1941).

12. Cuba's exports of chromite to the U. S. in the first half of 1941 totaled 455,943 metric tons, an increase of 87 per cent over the same period of 1940 (*Mineral Trade Notes,* November 20, 1941, p. 36); and during all of 1941 it supplied this country with approximately 245,000 tons of manganese, or 85 per cent more than in 1940 (*U. S. News,* January 16, 1942, p. 34). Brazilian shipments of manganese to the United States rose from 134,963 metric tons in 1939 to 222,713 in 1940, and 236,616 in the first eight months of 1941 (*Boletim do Conselho Federal de Comércio Exterior,* September 22, 1941, p. 7, and October 27, 1941, pp. 8, 9). Brazil has exported only a small quantity of chromite to this country—2,093 metric tons in eight months of 1941 (*ibid.,* October 27, 1941, pp. 8, 9).

13. *Boletim do Conselho Federal de Comércio Exterior,* October 27, 1941, p. 1.

specified annual quotas, to the United States: bauxite, 100,000 tons; beryl ore, 1,600 tons; chromite, 6,000 tons; ferro-nickel, 600 tons; industrial diamonds, 300,000 carats; manganese ore, 500,000 tons; mica, 2,000 tons; quartz crystals, 2,000 tons; rubber, 12,000 tons; titanium, 800 tons; and zirconium, 1,600 tons. If private purchases do not reach these amounts, the Metals Reserve Co. and the Rubber Reserve Co., both subsidiaries of the RFC, will purchase the balance at prices to be agreed upon with the Banco do Brasil.[14]

*Bolivia (May 21, 1941).* Contract between the Metals Reserve Co. and Bolivian producers, guaranteed by the Bolivian government, for the purchase of Bolivia's entire output of tungsten for the next three years.[15] Lead and zinc were included early in October 1941.

*Mexico (July 14, 1941).* Agreement making available to the United States or other Western Hemisphere countries for the next eighteen months the exportable surplus of antimony, arsenic, bismuth, cadmium, cobalt, copper, fluor spar, graphite, lead, mercury, manganese, mica, molybdenum, vanadium, zinc, tungsten, tin, henequen and other hard fibers. The Metals Reserve Co. and the Defense Supplies Corporation are to buy at prevailing market prices any surpluses of these materials "not sold to private industry in the Western Hemisphere."[16]

*Peru (October 2, 1941).* Agreement whereby the Metals Reserve Co. will buy such quantities of antimony, copper, lead, zinc, tungsten and vanadium as are not absorbed in the normal course of business with Western Hemisphere countries.[17]

*Argentina (November 29, 1941).* Three-year undertaking by the Metals Reserve Co. to buy 3,000 tons of tungsten concentrates a year—an amount in excess of current production—and an agreement by the Argentine government to prohibit exports to all other countries.[18]

*Chile (January 30, 1942).* Agreement whereby the Metals Reserve Co. will buy such quantities of copper, gold ore concentrates, manganese, lead, zinc, antimony, wolframite, molybdenum, cobalt ores and refined mercury as are not absorbed in the normal course of business with Western Hemisphere countries. The Metals Reserve Co. also agreed to take a minimum of 165,000 tons of copper ore concentrates. Although bar copper is not included in the agreement, virtually all exports of Chilean copper now go to the United States.[19]

### PROBLEM OF LATIN AMERICAN SURPLUSES

While the preclusive purchase agreements were originally instrumental in depriving the Axis powers and Japan of strategic materials,[20] they are no longer of such vital importance because communications with those powers have been virtually eliminated since the United States formally entered the war. The agreements are still of value in so far as they supplement other American purchases for private and public account and thus provide Latin America with an assured market for many of its raw materials. Not all raw materials, however, have been bought up by the United States. Argentina, for example, is still saddled with large, unsaleable supplies of linseed. Brazil and Peru, moreover, have been unable to sell substantial quantities of cotton to this country, which itself has a surplus. In the first nine months of 1941 Asia, primarily Japan, absorbed 35 per cent of Brazil's cotton exports,[21] while Japan alone took 64.5 per cent of Peru's shipments.[22] Interruption of this trade will create considerable hardship and may cause these two countries to turn to the United States for assistance in financing their surpluses.

The United States has not confined its purchases in Latin America to raw materials. While this country has not been able to relieve Argentina of burdensome surpluses of corn and other grains, it has bought increasing quantities of canned meat from Argentina, Brazil and Uruguay, dairy products and fresh fruit from Argentina, wines from Argentina and Chile,[23] sugar from Cuba and Peru, cacao beans and coffee from a large number of Latin American countries, and tobacco from Cuba. Virtually all Latin American foodstuffs except corn and other grains enjoyed larger sales in 1941 in the United States, partly because other sources of supply are no longer available, partly because the increase in national income has stimulated demand. For example, this country is relying increasingly on Cuba to meet the deficit caused by ces-

14. *Bulletin of the Pan American Union,* November 1941, pp. 670-71.

15. *Ibid.* Previously (on November 4, 1940) the Metals Reserve Co. had undertaken to buy during the next five years enough tin ore and concentrates to produce 18,000 tons of fine tin a year.

16. *Ibid.*

17. Federal Loan Agency, *Press Release 454,* October 2, 1941.

18. *Ibid., Press Release 614,* November 29, 1941.

19. *New York Herald Tribune,* January 31, 1942.

20. In the first nine months of 1941, Japan took 54 per cent of Argentina's exports of tungsten ores (*Mineral Trade Notes,* December 20, 1941, p. 19). Brazilian statistics disclose (*Boletim de Conselho de Comércio Exterior,* October 27, 1941, pp. 8-9) that in the first eight months of 1941 Japan, Germany and Italy bought a considerable proportion of the following exported raw materials: quartz crystals (28.7%); beryllium (45.9%); mica (60.8%); diamonds (36.7%); carbonados, a type of industrial diamond (57.2%); titanium (29.7%); zirconium (7.3%); tungsten (100%); ferro-nickel (99.5%).

21. *Boletim do Conselho Federal de Comércio Exterior,* November 17, 1941, p. 5.

22. *Foreign Commerce Weekly,* November 29, 1941, p. 29.

23. Argentine food exports to the United States (in U. S. dollars, f.o.b. Argentina) have risen as follows (Roberts, Meynell & Co., *Weekly News Bulletin,* No. 344):

| | 1940 | 1941 |
|---|---|---|
| Meat and meat by-products | $4,328,109 | $11,783,147 |
| Dairy products | 1,426,748 | 5,571,260 |
| Fruit and fruit preparations (including wine) | 1,152,600 | 2,343,552 |
| Vegetables and vegetable preparations | 1,820,722 | 2,396,182 |

sation of sugar imports from the Philippines. Receipts of raw and refined sugar from Cuba rose from 1,655,545 long tons in 1940 to 2,508,705 in 1941.[24] In January 1942 the Defense Supplies Corporation contracted to buy the entire Cuban crop, estimated at 3,600,000 to 3,750,000 long tons, except for 200,000 tons reserved for the home market and 65,000 set aside for export to other markets.[25] Cuba could increase its output sufficiently to meet the entire deficiency of the United States, but only at the danger of becoming, once more, almost exclusively dependent on the export of a single commodity. Alternatively, some supplies might be obtained from Peru—with which country negotiations for a trade agreement are now in progress—or from the Dominican Republic and other Caribbean areas whose combined productive capacity is considerable.

#### INTER-AMERICAN AGREEMENT ON COFFEE

The United States has made one of its greatest contributions to the economic welfare of Latin America by subscribing to the Inter-American Coffee Marketing Agreement, which was concluded on November 28, 1940. Coffee has long been one of the leading Latin American commodities, accounting for about one out of every twenty dollars derived from Latin American production. It is the principal cash crop of seven, and enters into the exports of fourteen of the twenty countries to the south. With the outbreak and extension of the war in Europe, Latin America lost approximately 30 per cent of its coffee market. It was threatened by a sharp decline in prices, and the situation was aggravated by the prospect of cutthroat competition in the remaining markets—particularly the United States, which usually takes almost 55 per cent of the Latin American output. To prevent competition and arrest a fall in price, the Inter-American Financial and Economic Advisory Committee, established at the Panama meeting of Foreign Ministers of the American Republics in September-October 1939, drafted an agreement dividing the United States market among the exporting countries. By signing this accord the United States sacrificed the enjoyment of lower prices which would have resulted from unrestricted competition and thus added substantially to the income of Latin America.[26]

The Inter-American Coffee Agreement,[27] which was signed and ratified by fourteen Latin American governments and the United States, assigned the producing countries basic annual quotas for exportation to this country and the remaining market. These quotas may be increased or decreased by the Inter-American Coffee Board, which includes representatives of all the signatory countries and administers the provisions of the agreement. Changes in export quotas for the United States cannot be made more frequently than once every six months and may not exceed 5 per cent of the basic quotas at one time, or 5 per cent during the first quota year. In the event of an "imminent shortage" of coffee in the United States, however, the quotas may be increased beyond such limits by a one-third vote of the Board. Since one-third of the votes are controlled by the United States,[28] this country can increase the quotas of its own accord whenever it believes such action necessary to prevent an undue rise in prices. On the other hand, reductions in quotas beyond the specified limits may be made only by unanimous vote. Other decisions may be taken by a simple majority.

To insure that non-participating countries may not take advantage of the agreement, the United States has undertaken to impose a specified quota on imports from outside producers[29] and to adjust this amount in accordance with changes in the quotas of the signatory nations. Exports in excess of quotas in any year must be deducted from the allotment of the following year, but deficiencies may be carried over to the extent of only 10 per cent of the previous year's quota.

In addition to administering the quota system, the Board, which has its seat in Washington, is required to make a study of the problem of coffee surpluses and "take appropriate steps with a view to working out satisfactory methods of financing the storage of such surpluses in cases where such action is urgently needed to stabilize the coffee industry." One-third of its expenses is paid by the United States, and the remainder by the exporting countries in proportion to their quotas.

#### DIFFICULTIES REGARDING PRICES AND QUOTAS

The agreement went into effect on April 16, 1941, retroactive to the quota year beginning October 1, 1940. From the outset there was a conflict

24. Willett and Gray, *Weekly Statistical Sugar Trade Journal*, January 15, 1942, p. 15.

25. *The New York Times*, January 28, 1942.

26. Total coffee imports by the United States in the first nine months of 1941 aggregated 1,646,679,000 pounds and $115,-656,864—an increase of 10.2 per cent in volume and 20 per cent in value over the corresponding period of 1940. Almost all imports were from Latin America.

27. For text of the agreement, see *Department of State Bulletin*, November 30, 1940, pp. 483-88.

28. Of the 36 votes on the Board, the United States has 12, Brazil 9, Colombia 3, and the remaining signatory countries one each. Paul C. Daniels, the U. S. delegate, was made chairman of the Board.

29. The basic quota for non-signatory countries amounts to 355,000 bags of 60 kilograms each, or 2.3 per cent of the total allotments of the participating nations.

of interest between the producing countries, which hoped to utilize the agreement to raise prices, and the United States, which as a consumer wanted to obtain coffee at moderate prices. The cost of coffee began to rise as soon as conclusion of the marketing agreement was rumored. In New York the wholesale price of Brazilian coffee (Santos 4's), which had averaged 7.5 cents per pound in 1939, rose from a low of 6.75 cents in August 1940 to 9.7 in April 1941—an increase of 43.8 per cent. During the same time the price of Manizales, a leading Colombian grade, which had averaged 11.84 cents in 1939, recovered from a low of 7.45 to 14.4 cents—a rise of 93.3 per cent.

Brazil and Colombia, which together enjoyed 80 per cent of the basic quotas allotted to the signatory countries, were not content to allow prices to rise automatically in response to the limitation of competition achieved by the quota system. Colombia began to fix minimum prices for its exports on November 22, 1940, and thereafter frequently raised them. Brazil followed suit on July 9, 1941. Such price-fixing aroused considerable adverse criticism in the United States, where OPACS took up the cudgels on behalf of the consumer. Although the United States delegate raised the whole price issue at a Board meeting on July 17, the discussion did not prevent Brazil from putting into effect higher prices on July 31. Then, on August 2, the United States utilized its control of one-third of the votes to effect an emergency increase of 20 per cent in quotas for the balance of the year.[30] Coming on top of a 5 per cent increase which had been approved on May 28 to take care of rising consumption in the United States, it raised permissible imports into the United States for the entire year ending September 30, 1941 about 4.5 per cent above the basic quotas. If the two increases were fully applied to the following year, however, total quotas would have been considerably greater than consumption in the United States and would therefore have largely destroyed the value of the marketing agreement.

This situation created a deadlock in the Board. Most of the producing countries sought a substantial reduction in the quota for the year beginning October 1, 1941, but the United States blocked all action in this direction until an understanding on prices had been achieved. After four fruitless meetings in September and October, a compromise was finally reached on October 23. The Board agreed that the quotas for the United States market should be 110 per cent of the basic allotments, and unanimously resolved that minimum prices should not "be maintained or fixed at levels exceeding the market prices for coffee which would exist under the normal operation of the quota system in the absence of such minimum prices, nor should they prevent normal price fluctuations, nor disturb the normal and usual operation of the coffee trade." Subsequently, in December 1941, the U. S. Office of Price Administration issued a schedule of maximum prices for green coffee which, in general, represent "the price levels that prevailed on October 1, adjusted in some instances to reflect changes resulting from the Inter-American Board Conference of October 23." According to OPA, the Coffee Board had agreed that the schedule established "a sound basis for trading in coffee under present conditions."[31] Ceiling prices for Santos 4's and Manizales were fixed at 13⅜ and 15⅞ cents a pound—levels which are respectively 98 and 113 per cent above the lows of 1940, and 78 and 34 per cent above the average prices of 1939.

From the point of view of Latin America, the coffee agreement has unquestionably been successful. The higher prices achieved in the United States have compensated for the loss of other markets. This country, of course, has had to pay more for its coffee in the interest of economic solidarity with Latin America. Part of the increase in prices, moreover, can undoubtedly be justified by the higher cost of United States products sold in Latin America. At the same time, it should be remembered that the agreement has done nothing to combat the overproduction of coffee which was chronic even before the outbreak of the war. On its own account, Brazil has continued to destroy part of its coffee crop every year since 1931[32] and has made some promising experiments in the production of plastics from coffee.[33]

30. The action on quotas was accompanied by a resolution which frankly stated: "Recent developments in the coffee market of the United States, which have been caused in some measure by official acts not contemplated in the Inter-American Coffee Agreement [i. e. price-fixing], threaten to disrupt orderly marketing conditions and the normal business of coffee-roasting establishments throughout the United States, and are making it difficult for many of these establishments to satisfy their normal requirements except on terms of trade considered inequitable." For text of the resolution, see *Tea and Coffee Trade Journal,* September 1941.

31. For complete text of the price order, see *ibid.,* January 1942, pp. 11, 14 and 16.

32. For example, the National Coffee Department of Brazil has ordered the destruction of 35 per cent of the 1941-42 coffee crop. *Foreign Commerce Weekly,* August 9, 1941, p. 8.

33. See "Cafelite," *Brazil Trade Journal,* May 1941. Utilizing a process discovered by Mr. H. Polin of New York, the National Coffee Department has established a pilot plant in São Paulo which can convert 50,000 bags of coffee a year into a plastic compound called "cafelite," and a number of by-products, including caffein, coffee oil, cellulose and furfural. A plant which will utilize as much as 5 million bags of coffee a year for the production of cafelite is projected for completion during 1942.

THE PROBLEM OF CACAO

The Inter-American Financial and Economic Advisory Committee has also tried to obtain a marketing agreement for cacao, but so far without success. On the surface, the problem would appear simpler than in the case of coffee, since Latin American countries (exclusive of European possessions in the Western Hemisphere) produce only about 30 per cent of the world's output of cacao and the United States normally consumes almost 40 per cent of the world total. The Latin American supply of the high grades of cacao, however, exceeds United States consumption.[34] Moreover, this country usually imports more than half of its requirements from Africa, while the Latin American republics sent about 25 per cent of their exports to European markets and 65 per cent to the United States.[35] Ecuador and Venezuela were particularly hard hit by the war, since they had marketed over half of their exports in Germany and less than a quarter in the United States.[36] The volume and value of their exports declined in 1940, although they managed to increase their sales to the United States. During 1941 Ecuador's shipments recovered to some extent, but Venezuela's continued to drop.[37] Brazil, which produces over half of the Latin American output, has not suffered so severely because the United States has almost always taken over 70 per cent of its output. After an initial decline in the first year of the war, Brazil's cacao exports in the second war year were 6 per cent below the volume of 1938-39 but 11.4 per cent greater in value.[38]

It would be possible to conclude a marketing agreement for cacao either by obtaining the cooperation of producers outside Latin America (primarily in the British Empire), or by independently setting up a quota system for the United States market and assigning the Latin American countries quotas large enough to enable them to dispose of most of their exportable surplus. In the latter event, however, there would still be the question whether enough shipping space was available to transport all the Latin American output to the United States.

THE WHEAT SURPLUS

Efforts to solve the wheat surplus problem have also failed to bear fruit. Three countries in the Western Hemisphere—Argentina, Canada and the United States—produce substantial quantities of wheat in excess of their own needs and the requirements of other nations in the Hemisphere.[39] During 1941 their representatives met periodically in Washington with delegates of Australia and the United Kingdom for the purpose of reaching some agreement on the disposal of wheat. Since stocks available for export at the end of July 1941 amounted to about two years' normal requirements of wheat-importing countries, measures for controlling production were discussed. The conference also considered the need for an equitable division of markets to avoid cutthroat competition, and examined proposals to create a large pool of wheat for post-war relief to those countries which have suffered from the devastation of war. On August 3, 1941 a provisional agreement was reached and submitted to the governments concerned.[40] Since that time new discussions have taken place, but no concrete results have been announced.

LATIN AMERICA'S SHORTAGE OF ESSENTIAL IMPORTS

Although there are still a few burdensome surpluses, Latin American countries as a whole managed to surmount the export crisis during 1941. In the past year they have become more concerned about the problem of continuing essential imports. The war has cut off supplies from almost the entire European continent, which used to contribute about a third of Latin American imports, and curtailed the volume of goods which Britain could furnish. In the first war year the United States was able to make up the greater part of the loss in supplies. Its exports to the twenty Latin American republics rose from $490.1 million in the twelve months immediately preceding the war to $734 million in the year ended August 30, 1940. Exports actually rose more rapidly than imports, so that the export surplus in trade with Latin America increased from $21.1 to $117.6 million; and many Latin American countries took measures to curb imports because of the drain on foreign exchange assets. In the second war year, however, the trend was reversed. Owing largely to growing preoccupation with defense production, ex-

34. B. C. Merriam, "World Cacao Production and Trade," *Foreign Agriculture,* February 1941.

35. U. S. Tariff Commission, *Latin America as a Source of Strategic and Other Essential Materials* (Washington, Government Printing Office, 1941), p. 225.

36. *Ibid.,* p. 219.

37. In the first eleven months of 1941, Ecuador's cacao exports totaled 13,295,301 kilograms, compared with 9,181,505 in the same period of 1940. Venezuela's exports were probably about 12,000,000 kilograms in 1941, against 15,246,304 in 1940.

38. Calculated from statistics in *Boletim do Conselho Federal de Comércio Exterior,* October 13, 1941.

39. Argentina has been able to sell a small part of its wheat crop to Spain. On January 13, 1942, for example, it concluded an agreement whereby the Spanish government will take 160,000 tons of wheat in exchange for bonds of the Argentine External Loan of 1933. This agreement followed completion of an earlier transaction of a similar type. See Roberts, Meynell & Company, *Weekly News Bulletin,* No. 344.

40. Department of State, *Press Release,* August 4, 1941.

ports to Latin America rose only slightly in value, to $782.7 million, and probably declined in volume. At the same time, imports soared from $616.4 million in the first war year to $837.3 million in the second. The export surplus was converted into a deficit of $54.6 million.[41] In the first nine months of 1941 this tendency was even more marked, with the import surplus in trade with Latin America rising to $137.5 million.[42]

In the past year Latin American nations have experienced growing shortages of imported fuel and raw materials, and of many semi-manufactured and manufactured goods such as machinery, chemicals, electrical appliances and equipment, tin plate, iron and steel products, and other metal manufactures. To compensate completely for these shortages, many of which are due to the curtailment of trade with Europe, the United States would have to expand its shipments far beyond the customary levels. Yet in many cases United States exporters have canceled orders because of preoccupation with defense work. Even in normal times, business with Latin American countries was so small that many North American concerns did not find it worthwhile to cultivate these markets. Now that domestic business is booming, there is still less inclination to sell to Latin America, particularly since export licenses and priority ratings must be obtained for all such transactions. Latin America's supply difficulties have been further aggravated by the rise in price of United States products and the lack of good credit facilities.

ALLOCATION OF U.S. SUPPLIES

The United States government has tried to meet Latin American needs as far as the requirements of defense production permitted. Wherever possible, general licenses were issued for the exportation of goods to Latin American countries, provided there was assurance that the articles in question would not be re-exported to unfriendly powers. In the case of goods which were particularly scarce or vital to defense, export orders were granted priorities, but only for "the most urgent requirements" of the American republics.[43] To expedite the movement of products, a clearance section was set up in the Office of Export Control (later taken over by the Board of Economic Warfare) to handle export proposals and obtain action on them by the various government authorities dealing with priorities, shipping, foreign relations, funds, etc. As the defense program expanded and the need for materials and equipment far exceeded the supply available, general export licenses became virtually useless. It was necessary to substitute a system whereby definite quantities of essential goods and materials would be allocated for export to Latin America. In theory, it might have been possible to satisfy all the import requirements of Latin America, since they amounted in most cases to only a very small proportion of the output in the United States.[44] In practice, however, the U. S. government declined to accord such requirements better treatment than that given the needs of its own civilians.[45]

Acting in cooperation with the Inter-American Financial and Economic Advisory Committee and the governments of the Latin American republics, United States defense agencies have surveyed the essential import needs of the nations to the south. On the basis of this survey, it was announced on December 2, 1941 that 218,000 metric tons of tin plate would be made available for export to the other Western Hemisphere republics during the twelve-month period beginning December 15. On January 15, 1942 allocations were made for the exportation, during the first quarter of 1942, of 25 other materials, including iron and steel, many chemicals, rayon, tungsten, nickel, platinum, and miscellaneous farm equipment. Export licenses are granted up to these allotments, and Latin American governments are given opportunity to recommend approval or disapproval of orders by individual importers. In time, allocations will gradually be made for all essential goods needed by Latin America.

CONTROL OF EXPORT PRICES

Another major problem has been the control of export prices. For most Latin American coun-

41. Maffry, "U.S. Foreign Trade During Second War Year," cited.

42. In this period exports were $577,638,122, and imports $715,152,693.

43. See statement of policy by Under Secretary of State Sumner Welles before the Inter-American Financial and Economic Advisory Committee on July 19, 1941, *Foreign Commerce Weekly*, August 2, 1941, p. 6.

44. In a speech delivered on May 7, 1941 Nelson A. Rockefeller, Coordinator of Inter-American Affairs, estimated the proportion of South and Central American import requirements to U. S. production as follows: iron and steel, less than 2 per cent; motor vehicles, under 2 per cent; metal-working machinery, perhaps one per cent; construction and textile machinery, perhaps 4 to 5 per cent; electric refrigerators, and agricultural implements and machinery, 3 per cent; mining and well-drilling machinery, up to 7 per cent.

45. On December 26, 1941 the Board of Economic Warfare resolved unanimously that "it is the policy of the government of the United States to aid in maintaining the economic stability of the other American republics by recognizing and providing for their essential civilian needs on the basis of equal and proportionate consideration with our own." See address of Under Secretary of State Welles at the Rio de Janeiro Conference on January 18, 1942, *The New York Times*, January 19, 1942.

tries the cost of imports has increased more rapidly than the price of their exports. The United States government, however, has been confronted with a dilemma in the task of checking this rise in prices. By limiting prices the government ran the danger of destroying the incentive to export and thus depriving Latin America of needed supplies. Nevertheless, export license officers were instructed to reject applications whenever prices were higher than the ceilings determined by the Office of Price Administration, or unreasonably exceeded current market prices. On January 24, 1942 Secretary of State Cordell Hull sent a message to the Inter-American Conference at Rio de Janeiro announcing that the United States was establishing "export price ceilings on scarce materials which are calculated to prevent speculation and profiteering and yet will provide sufficient margin over [the] domestic ceiling [so as] not to interfere with [the] flow of exports."[46] The export ceilings which have since been established approximate the domestic price plus normal export charges. It remains to be seen whether exporters will agree to do business with Latin America on this basis, which assures them no premium.

### CREDIT FACILITIES

The government has also found it necessary to accord Latin American countries special credit facilities for making their purchases. United States manufacturers and exporters have never been willing to give foreign importers liberal credit terms. Since the war, cash domestic business has been so large and the difficulties of securing priorities and licenses for exports so great that they have refused to accept orders from Latin America except against irrevocable letters of credit. Latin American importers therefore had to obtain cash or credit from their own banks long in advance of the delivery of the merchandise. To overcome this difficulty, the Export-Import Bank announced in October 1941 that it would open special lines of credit for approved banks in South and Central America, under which it would accept responsibility for making payment for goods against certificates of delivery in the United States, and assume the uninsurable risk incidental to making deliveries to ports of destination.[47] Latin American banks have thus been enabled to finance the purchases of their clients in the United States.

### THE SHIPPING PROBLEM

From the beginning of the war in September 1939, one of the most difficult problems of inter-American trade has been to keep in service enough merchant vessels to satisfy the growing demand for transportation. While the need for shipping tonnage rose sharply, many British and other foreign-flag vessels, which used to handle more than half of the inter-American commerce, were withdrawn for use elsewhere. Such withdrawals increased as German attacks on shipping became more effective. The United States government tried to meet this shortage by (1) transferring additional vessels to Latin American trade routes and speeding up their operations, (2) enlisting the cooperation of other American republics in taking over idle foreign-flag ships, and (3) resorting, where necessary, to transportation priorities.

The number of U.S. flag vessels engaged in trade in the Western Hemisphere more than doubled between June 30, 1939 and September 30, 1941. The number rose from 137 to 282, and gross tonnage from 852,077 to 1,701,837. The tonnage of ships plying between U.S. ports and Mexico, Central America, the West Indies and Canada increased from 532,562 to 971,777, while that of vessels in trade with South America rose from 319,515 to 730,060.[48] At the same time, the frequency of sailings was stepped up by reducing time in port.

After the United States had decided to requisition idle Axis-controlled ships in its own harbors, it sought the cooperation of the other American republics in taking similar action. At its suggestion, the Inter-American Financial and Economic Advisory Committee adopted a resolution on April 26, 1941 recommending that the American nations declare "that the foreign-flag vessels in American ports, the commercial activities of which have been interrupted as a consequence of the war, may now be utilized by the American republics in accordance with the rules of international law and the provisions of their national legislations, in such a manner as to promote the defense of their economies as well as the peace and security of the continent."[49] When the British government agreed to recognize the contemplated change in ownership of these ships, subject to a number of conditions and the ironing out of other details, the Committee on August 28, 1941 adopted a plan providing for "an immediate transfer of such vessels to active service," and "the closest

46. Office of Price Administration, *Press Release PM 2304*, January 24, 1942.

47. See Warren Lee Pierson, "Solving Two Pan-American Trade Problems," and "Latin America and the Export-Import Bank," *Foreign Commerce Weekly*, November 1 and December 6, 1941.

48. Data taken from the quarterly reports on employment of American merchant vessels, published by the U.S. Maritime Commission.

49. *Department of State Bulletin*, May 3, 1941.

cooperation among the maritime authorities of the ship-operating nations of the Western Hemisphere in planning the most effective use of all available vessels." The United States government and shipping agencies are prepared to repair and run inactive ships whenever the country in whose waters they are located does not desire to do so.[50] Subsequently, on November 14, the Committee established a special commission to "formulate plans for the efficient use of all the merchant vessels available for service between the American Republics and to recommend to the Maritime Authorities the allocation of such vessels to particular routes or to the carrying of articles of a specific nature."[51]

Eventually, 103 Italian, German, Danish and French ships, found idle in Latin American ports, will thus be put into operation. They will provide inter-American trade routes with about 546,000 additional gross tons of shipping.[52] By December 27, 1941, 46 vessels had been taken over by the Latin American republics.[52a] Since that date, many others have been purchased or seized, particularly in Brazil. Unfortunately, at least 15 of the 103 immobilized ships were seriously damaged, many of them beyond repair. Utilization of a large number of vessels awaits replacement of parts, overhaul, and assembly of competent crews.

Despite these measures, the volume of available tonnage has not been equal to the demand. For this reason the U. S. Maritime Commission has had to enforce priorities to insure the movement of the most essential goods. In general, priorities have been necessary only in the northbound inter-American trades which handle the bulk of the traffic. Relatively few have been needed to facilitate the transportation of exports to Latin America.

### CLOSE ECONOMIC TIES FORGED BY WAR

All these developments have helped knit the Americas into a single economic unit. The trade of Latin America has been reoriented toward the United States. This country, in turn, has come to rely heavily on Latin America to supply the raw materials for its arsenals. By December 1941 the Latin American nations had recovered remarkably well from the economic dislocations caused by the European war. Now that the United States has itself become fully involved in hostilities, the outlook is less optimistic. The character of Latin American exports is determined solely by the requirements of war. While sales of raw materials to the United States will undoubtedly continue to boom, distress will be caused by the inevitable decline in exports of non-essential products. Today there are no longer enough ships to carry Latin American goods. The trend toward allocation of more vessels to inter-American trade has been reversed. Withdrawal of ships for more urgent service elsewhere may necessitate substantial curtailment of imports of coffee, cacao beans, bananas and other foodstuffs, with serious repercussions on the economic life of many Latin American countries, especially those in and about the Caribbean. The one-sided orientation of Latin American trade toward export of raw materials to the United States during the war may also involve difficult problems of readjustment when hostilities cease and consumption tendencies return to peacetime patterns.

Latin America, like the rest of the world, cannot escape the economic effects of the war, or remain immune from the sacrifices it entails. It may, however, have to shoulder a disproportionate share unless it obtains the supplies necessary to operate its economic life and maintain employment. This country has set up an allocations system designed to treat the Latin American consumer on a basis of equality with its own people. But curtailment of supplies for Latin America's use may cause considerably more unemployment and distress in Latin America than in this country. Increased production of materials for the United States is probably insufficient to offset the loss due to decline in other exports and shortage of imported raw materials and industrial equipment. If the trade of this country is narrowly dictated by its war requirements, inter-American amity may be impaired and Latin America may become fertile ground for Axis propaganda. The United States faces a difficult task in reconciling its own needs with the interests of the nations to the south.

50. *Ibid.*, August 30, 1941, p. 165.

51. *Ibid.*, November 22, 1941, pp. 403-404.

52. U. S. Maritime Commission, Division of Economics, *Merchant Vessels Immobilized in Other American Republics as of May 21, with changes to June 5, 1941.*

52a. *Report of the Inter-American Maritime Technical Commission*, December 27, 1941 (Washington, mimeographed). This body is an agency of the Inter-American Financial and Economic Advisory Committee.

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*The March 1 issue of* FOREIGN POLICY REPORTS *will be*

ECONOMIC PROJECTS FOR LONG-TERM HEMISPHERE COLLABORATION *by John C. deWilde*

# Elimination of Axis Air Lines in the Americas

BY JOHN I. B. MCCULLOCH

ACCORDING to a decision of the Brazilian government, announced on February 6, the Condor airline, once closely associated with Deutsche Lufthansa, is to be reorganized as a purely Brazilian concern. If this program is faithfully carried out, it will mean the elimination of the only remaining and perhaps the most vital link in an Axis-controlled airway network which once cast its shadow over most of South America.

The first tangible step in the dramatic battle to rid Latin American aviation of Nazi influence was taken in the strategically located Republic of Colombia. Here, at the northernmost tip of South America and in dangerous proximity to the Panama Canal, the German-dominated firm known as Scadta (Sociedad Colombo-Alemana de Transportes Aéreos) had been operating a constantly expanding air service since 1919. With Hitler's rise to power and the growth of Nazi aggression, the danger inherent in such a situation became apparent. The Colombian government therefore set up a national airline, Avianca, into which Scadta and other local companies were absorbed. By June 1940 the process of "de-Germanization" had been completed. German pilots and technicians were relieved of their posts, and a thorough transformation of Scadta was accomplished in collaboration with Pan American Airways (Panair).

The second major clash on the airways front took place in Peru, where a branch of Deutsche Lufthansa had acquired a franchise as late as May 1938. Operating between Lima and La Paz, Bolivia, over two alternative routes, Lufthansa Peru linked up in the Bolivian capital with German-controlled Lloyd Aéreo Boliviano, a veteran company dating back to 1925. "L.A.B." connected, in turn, with the Condor line of Brazil, so that Nazi air routes effectively crisscrossed Latin America. In late March 1941, following an unauthorized flight by a Lufthansa plane over Ecuadorean territory, the Peruvian government notified the offending line that its contract would be terminated in June. A few days later, more drastic measures were imposed: simultaneously with a wave of ship seizures and scuttlings throughout Latin America, Peruvian authorities confiscated Lufthansa's two Junkers planes and seized the company's ground property.

On May 15, 1941 the Bolivian government—perhaps encouraged by the example of Peru—adopted a roughly similar procedure. Lloyd Aéreo Boliviano was taken over by the government in a general reorganization calculated to eliminate German influence. Meanwhile, approximately half of L.A.B.'s former routes were assigned to Pan American Grace (Panagra). Relying in part on planes chartered from the U.S. government, Panagra pushed through to the Brazilian frontier.

These developments in Peru and Bolivia had the effect of isolating the small Sedta line (Sociedad Ecuatoriana de Transportes Aéreos), which was operating with German personnel over strategic segments of Ecuadorean territory. Early in 1941 Panagra received permission from the Ecuadorean government to duplicate Sedta's services within the republic. A further, and fatal, blow was the decision of the Canadian oil company in Talara, Peru, to cut off Sedta's oil supplies. On September 2, 1941 the line suspended services.

With the elimination of Sedta, Axis air influence in South America was reduced to the eastern and southern areas of the continent. The only important Axis agencies left functioning were the Lati line (an Italian company operating on irregular schedule between Brazil and Europe), and the Condor Syndicate, which maintained an extensive system of routes in Brazil, with connections south to Argentina and Chile. As the war clouds thickened, gas supplies for these two lines were systematically curtailed by North American companies on orders from Washington. The fundamental policy was not to cut off provisions completely until adequate replacement services were available. By the autumn of 1941, however, Panair do Brazil was flying nine-tenths of Condor's mileage, computed on a route-mile basis. Early in December, the United States completely cut off gas supplies for Condor's Buenos Aires to Santiago run. At the same time Panagra increased the number of flights over this sector from five to seven weekly. In late December, both Condor and Lati were grounded by the Brazilian government.

With Condor planes no longer flying, Panair do Brazil stepped into the breach, and proceeded to duplicate all Condor services, save in one or two relatively unimportant sections. At present the Brazilian government is in the process of nationalizing Condor. Axis financial control over this line was largely removed by the freezing of Axis funds, and the more obviously pro-Axis members of the company's personnel are being weeded out. No decision has as yet been made as to whether, on completion of this process, Panair will, or will not, abandon the routes temporarily taken over from the rival line. In any event, Lati's transoceanic operations have been replaced by a new Pan American Airways service across the South Atlantic to Lisbon. No Axis plane today flies within, or connects with, any portion of the Western Hemisphere.